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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 000078

SIPDIS

STATE FOR WHA/CEN, WHA/EPSC AND EEB/OMA
TREASURY FOR IMF AND IDB EXECUTIVE DIRECTORS

E.O. 12958: DECL: 02/03/2019

TAGS: EFIN IMF HO

SUBJECT: FINMIN SEEKS HELP CONVINCING ZELAYA OF GRAVITY OF
CRISIS

REF: A. TEGUCIGALPA 69

- 1B. 08 TEGUCIGALPA 1114
- 1C. 08 TEGUCIGALPA 1009
- 1D. 08 TEGUCIGALPA 1006

Classified By: Ambassador Hugo Llorens, E.O. 12958 Reason 1.4(d)

11. (U) This is an action request. See para 9.

12. (C) Summary: In a meeting with the Ambassador, Finance Minister Rebecca Santos told us she sees President Manuel Zelaya's trip to Washington later this month as an opportunity to persuade him to adopt an economic stabilization program and enter into serious discussions with the IMF. She expressed strong concern for the likely negative impact of the global financial crisis on growth, employment, credit availability, investment. All of these negative trends are likely to weaken Honduras, public finances. End Summary.

13. (U) Santos requested an urgent meeting with the Ambassador February 2 to discuss the worsening external economic environment and President Zelaya's upcoming trip to Washington, scheduled for the week of February 16. Zelaya is seeking meetings with Treasury, as well as with the IMF, World Bank and Interamerican Development Bank. She said meetings had already been confirmed with the IMF Deputy Director and Director for the Western Hemisphere.

14. (C) Santos said she was worried that monetary problems -- and the reluctance of Central Bank President Edwin Araque to effectively address them -- could affect the Honduran fiscal situation and make it difficult for her to manage public finances during the last year of Zelaya's term or to hand matters over to her successor in good shape. She said that Zelaya garnered information about the financial situation from numerous sources, including Honduran bankers, but she is not confident that he fully comprehends the gravity of the worsening global financial environment and its potential implications for Honduras.

15. (C) Santos complained that the presentation Zelaya received from the IDB last year was not thorough and failed to convince him that adjustment measures were needed. She requested, therefore, that on his upcoming trip Zelaya receive comprehensive, candid and up-to-date briefings on the outlook for the global economy this year and the implications for small economies like Honduras in his planned meetings with Treasury, the IMF, and IDB.

16. (C) The Ambassador agreed with Santos that the Washington trip was a good opportunity to get the Honduran government to

engage the Fund in serious negotiations that would result in the adoption of an economic program to confront the current global financial situation. The Ambassador reviewed in detail his past economic policy discussions with President Zelaya and our message to him on the importance of taking policy actions to minimize the impact of the international situation. The Ambassador noted that the GOH's continued rosy GDP estimates (of 3.4 percent growth for 2009) were too optimistic and suggested that Honduras' problem was not severe. Santos agreed that GDP growth was likely to be far lower and blamed the Central Bank for maintaining these inflated official estimates. She did note that it might be politically unwise to concede defeat preemptively and admit that Honduras, was already in an economic crisis, which was not yet clear. Santos did observe that remittances, which are a fifth of Honduran GDP, fell 3 percent in January and that banks, "terrified" of a possible devaluation, are not lending.

¶17. (C) Santos said she feared the IMF had written off the possibility of reaching an agreement with Zelaya, because of Zelaya's rigid stance against loosening the exchange-rate peg and because of the difficult negotiations over the past three years. But she said Zelaya, although not an economic expert, respected expert opinion, including that of the U.S. Treasury, the IDB and World Bank President Robert Zoellick. She therefore remains hopeful that Zelaya can be persuaded to adopt measures to stabilize reserves and maintain macroeconomic stability in what remains of his term.

¶18. (C) The Ambassador said he planned to be in Washington for
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Zelaya's meetings with USG officials and would pass along Santos's request to Treasury and to U.S. Executive Directorsto ensure that we provided the President a good brief on the international financial situation and how it may impact on Honduras.

¶19. (C) Comment and Action Request: Zelaya's upcoming visit to Washington may represent the final opportunity to persuade him to adopt sound macroeconomic policies in the remaining year of his administration. Zelaya has been stubborn on the exchange rate, persuaded by the advice of Honduran bankers and fearing the political fallout from a devaluation. But we think he can be turned around if given enough political cover and intellectual ammunition. Zelaya has also tended to approach the IFIs from a purely opportunistic perspective, seeking maximum resources with minimum conditions. However, with oil trading at about a third of what it was six months ago, Zelaya no doubt realizes he will not get nearly the financial support from Venezuela this year that he expected when he signed onto ALBA and Petrocaribe last year, and that he has nowhere else to go. We therefore recommend that Washington agencies do what they can to assure that Zelaya receives solid, up-to-date, non-sugar-coated briefings in his meetings later this month. End Comment and Action Request.
LLORENS